10/28/86 R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 39A October 24, 1986

JAPAN'S FOREIGN AID POLICY: 1986 UPDATE

Summary

Japan continues to emphasize the need to expand aid programs so they are commensurate with its role as a global economic power. In 1986 it launched a plan that would provide more than $40 billion in official development assistance over the next seven years as well as improve the quality of its overseas programs. Thus Japan is likely to become firmly established as the second-largest ODA donor, a position it reached in 1984 before dropping back to third place last year. The drop was attributable more to the timing of multilateral contributions than to a shift in priorities, however.

As Japan's global political and economic role has expanded, the rationale for ODA programs has become more complex. The promotion of economic development abroad, commercial gain, strategic motivations, humanitarianism and global interdependence all play a part in determining the scope and direction of ODA outlays. Government statements on aid policy also place more emphasis on the importance of coordinating government and private initiatives in third world areas. Increased foreign direct investment, the expanding number of non-governmental aid groups and continued popular support for ODA efforts all indicate a growing number of participants in Japan's aid programs. In the future, ODA outlays are likely to increase further as pressures abroad and at home continue to emphasize Japan's role as a global leader as well as its need to contribute to world prosperity.

Overview of Japan's Aid Policies

Japan's commitment to foreign aid has undergone a series of changes since Tokyo's first aid initiative to India in the late 1950s. According to aid experts William L. Brooks and Robert M. Orr,[1] there have been four distinct stages in aid policy. From the mid-1950s until approximately 1965, Tokyo's aid took the form of war reparations. The 1960s saw primarily tied aid (economic assistance in exchange for agreement to buy Japanese products) for export promotion, while the oil crisis of 1973 led to considerations of eco- nomic interdependence as Japan turned its attention to resource-rich countries as well as to those nations located along important shipping routes. Finally, beginning in 1980, development assistance took on a two-fold focus: an emphasis on alleviating poverty and expanding aid to those developing countries vital to the Western alliance's overall strategic concerns.

In the infant stages of Tokyo's aid programs, Japan considered itself a developing country; accordingly, the bulk of aid flows consisted of export credits and private efforts. Official loans were placed at near-commercial rates, aid was heavily tied, and the primary emphasis was on technical assistance. From the beginning Asia was the primary recipient of aid -- an outgrowth of the fact that reparations went to Asian countries, the accessibility of Asian markets, a shared cultural heritage, and the importance Japan placed on enhancing regional stability.

With the advent of the energy crises of the 1970s, Japan reassessed its Asia focus. Overtures to resource-rich countries marked the beginning of aid globalization, although Asia retained its number-one status. This process was expedited in the late 1970s when strategic considerations prompted by political crises in such places as Iran and Afghanistan as well as heightened criticism of Japan's tied-aid policies led Tokyo to improve the quantity, regional distribution and terms of its aid flows. Additionally, a "basic human needs" approach to ODA was adopted in the 1980s to focus on improving the conditions of the poor rather than attempting to narrow the differences between rich and poor countries through large-scale projects. To do so, Tokyo selected four areas of emphasis: rural and agricultural development; development of new and renewable energy sources; human resource development; and improvement of small and medium-sized businesses. In short, the rationale, recipients and scope of Tokyo's aid programs have expanded along with Japan's global role.

Tokyo's intention to increase its aid flows to the developing world has been signaled by a series of aid-doubling plans. In 1977 Japan pledged to double its aid disbursements within five years. The government easily achieved its goal, raising outlays from $1.4 billion in 1977 to $3.3 billion in 1980 and increasing the grant and technical assistance elements of aid. Encouraged by the success of the initiative, then-Prime Minister Zenko Suzuki announced in 1981 a new medium-term plan to double the level of aid during the 1981-85

[1]William L. Brooks and Robert M. Orr Jr., "Japan's Foreign Economic Assistance," Asian Survey, XXV, No. 3 (March 1985), p. 323.

The JEI REPORT (ISSN 0744-6489) is published weekly for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

period. However, a slowdown in domestic growth brought fiscal austerity to Japan, and together with a sharp depreciation of the yen made it impossible to reach the $21.4 billion aggregate goal by the end of 1985. Actual disbursements, which are measured in dollars, amounted to $18.1 billion, or approximately 85 percent of the goal. If the yen had held steady near its average January 1981 rate of Y202=$1.00 -- when the target was set -- the aid goal would have been met, according to Foreign Ministry officials.

In spite of the second plan's setback, Tokyo quickly announced the Third Medium-Term Target. In September 1985 the cabinet approved a plan to disburse more than $40 billion over the 1986-92 period. Tokyo points out that to meet this goal, the ODA budget will have to be expanded at an annual average rate of 10.4 percent, while the second doubling plan could have been met through yearly increases of 8.7 percent. Moreover, the new goal stresses not just increased quantities of aid but also "effective and efficient implementation." Five paths to improve the quality of aid have been selected: improved implementation procedures; better coordination between technical assistance and financial allocations; specific evaluation of aid projects; improved coordination with private-sector initiatives; and cooperation with other donor countries and international organizations.

The new focus on improving the quality of aid is highlighted by several recent initiatives. For example, the Advisory Committee on the Effective Implementation of ODA, formed in April 1985 by then-Foreign Minister Shintaro Abe, suggested that project evaluation efforts could be improved. Consequently, while Tokyo has stated that regular audits of aid programs could threaten the sovereignty of recipient countries, a decision was made to establish independent project evaluation groups. A new emphasis will also be placed on the environmental impact of Japan's aid programs, a decision made in September 1986 in response to some complaints by developing countries about the "export of pollution." Moreover, the government has set up a panel to compile a handbook on prospects for the Environmental Agency's international environmental cooperation efforts.

In keeping with its basic human needs emphasis, Tokyo has broadened its capacity to respond to large-scale natural disasters. The government points proudly to its aid efforts during the 1985 earthquake in Mexico and the volcano eruption in Colombia. Tokyo dispatched its disaster relief medical team to Mexico, donated $1.25 million in assistance and provided $50 million in emergency financing. The same group was also sent to Colombia, along with former members of the Japan Overseas Cooperation Volunteers. Japan also provided $1.25 million to Colombia as well as $50,000 to the United Nations Disaster Relief Organization. Moreover, the 1986 ODA budget allocated funds to establish an organization to respond to natural disasters. In April the International Emergency Relief System was inaugurated for this purpose.

Japan's ODA Efforts in 1985

Tokyo's official development assistance in 1985 totaled $3.8 billion, a 12.1 percent decrease from the 1984 figure of $4.3 billion (see Table 1) -- dropping Japan back to third place among donor countries. (In 1984 Japan had surpassed France to become the number-two donor.) Japanese aid officials emphasize, however, that the setback reflected the cyclical nature of multilateral contributions rather than any long-term change in aid policy. Funding

Table 1: Total Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1981-85

(in millions of dollars)

Type of Transaction	1981	1982	1983	1984	1985	Percent Change 1984/85
I. Official Development Assistance (ODA)	$3,171	$3,023	$3,761	$4,319	$3,797	-12.1%
Change Over Previous Year	-4.0%	-4.7%	24.4%	14.8%	-12.1%	
ODA/GNP Ratio	0.28%	0.28%	0.33%	0.34%	0.29%	
A. Bilateral Assistance	2,260	2,367	2,425	2,427	2,557	5.3
1. Grants	810	805	993	1,064	1,185	11.4
a. Grant Assistance	432	412	535	543	636	17.1
b. Technical Assistance	378	393	458	521	549	5.4
2. Development Lending and Capital	1,450	1,562	1,432	1,363	1,372	0.6
B. Grants, Capital Subscription and Loans to Multilateral Agencies	911	656	1,336	1,891	1,240	-34.4
II. Other Official Flows (OOF)	3,023	2,914	1,954	743	-302	---
A. Export Credits (over one year)	1,410	850	472	493	-152	---
B. Direct Investment Finance and Other	1,490	2,095	1,442	380	-1	---
C. Transactions with Multilateral Agencies at Market Terms	123	-31	41	-130	-148	---
III. Private Flows (PF)	6,011	2,929	2,918	9,968	9,332	-6.4
A. Direct Investments	2,426	364	433	1,489	1,046	-29.8
B. Export Credits (over one year)	712	-1,762	-2,069	-655	-994	---
C. Other Bilateral Securities and Claims	1,273	2,799	2,339	6,828	6,705	-1.8
D. Multilateral Private Flows	1,600	1,529	2,215	2,306	2,575	11.7
IV. Grants by Voluntary Agencies	27	23	30	41	101	149.0
Total	12,231	8,889	8,663	15,070	12,928	-14.2
Change Over Previous Year	80.8%	-27.3%	-2.5%	74.0%	-14.2%	---
As Percentage of GNP	1.09%	0.84%	0.75%	1.20%	0.97%	---
For Reference						
Total Export Credits	2,123	-913	-1,597	-162	-1,146	---
Total Direct Investments and Other	3,916	2,458	1,874	1,869	1,044	-44.1

Notes: 1. Net disbursement basis.
2. Due to rounding, the figures do not necessarily add up to the totals.

Source: Ministry of Foreign Affairs

for multilateral institutions recorded a 34.4 percent drop, primarily because Japan made a special contribution to the International Development Agency in 1984 and subscribed to a special replenishment of the World Bank that year, pushing up the multilateral ODA contribution by 41.6 percent in 1984. As a result of the decrease in 1985, Tokyo's ODA/GNP ratio was only 0.29 percent compared with 1984's 0.34 percent. Japan ranked 15th in terms of ODA/GNP last year, when the Development Assistance Committee average was 0.35 percent -- significantly less than the U.N.-recommended 0.7 percent ratio (see Tables 2 and 3).

Viewing Japan's multilateral assistance in this context somewhat obscures its achievements in 1985. Bilateral aid rose to nearly $2.6 billion, with grants up 17.1 percent and technical assistance 5.4 percent. Direct investment financing and export credits decreased dramatically, reflecting Tokyo's commitment to improve the terms of aid flows to developing countries.

Prospects for future ODA outlays are largely contingent on the broad trend of Japanese economic policy, as illustrated by the budget disputes between the Ministry of Finance and the Foreign Ministry over the priority to be accorded the policy of fiscal austerity. While aid and defense allocations are the only two major categories that have been consistently exempted from cuts in discretionary spending, there is some disagreement as to how much the aid budget should be expanded. The Finance Ministry fought to hold the growth in the FY 1986 ODA budget to 6 or 7 percent, but eventually accepted 10 percent. The Foreign Ministry had argued that double-digit growth was necessary to ease foreign criticism of Japan's trade surpluses, meet foreign expectations of Tokyo's aid, and achieve the goal of the Third Medium-Term Target.

In preliminary budget guidelines for FY 1987, ODA allocations are slated for a 7.5 percent hike; nonetheless, the aid budget is likely to receive the largest increase of all discretionary budget items. Officials point out, moreover, that because of the yen's appreciation, the dollar value of Tokyo's contribution will increase by more than 10 percent. (The effects of appreciation did not show up in the 1985 figures, which were calculated at an average Y238.54=$1.00 -- or virtually the same conversion factor used in 1984.)

Comprehensive Security and Interdependence

Just as the terms of the Third Medium-Term Target reflect the need to expand aid efforts, so too does Japan's increased global presence reflect the complexity of reasons for Tokyo's aid policies. Economic motivations, security considerations, increased awareness of global interdependence, a desire to live up to its position as a world power and humanitarian goals all play a part in Japan's ODA policies.

Prior to the 1980s the government only acknowledged economic reasons for aid distribution. An official rationale for the ODA program was adopted in 1980, when then-Prime Minister Masayoshi Ohira embraced "comprehensive national security" -- that is, the consideration of military and non-military factors in security issues -- as national policy. In this way, he linked aid to Japan's long-term strategy for defense, energy and food -- albeit in a non-military way. Because policy was "comprehensive," aid was also designated for international security, especially for countries in the Western alliance. As part of the new policy, the Japanese government pledged to give economic assistance

Table 2: ODA as Percentage of GNP for DAC Countries, 1981-85

(in millions of dollars)

1985 Rank		1981 Amount	1981 Percent of GNP	1982 Amount	1982 Percent of GNP	1983 Amount	1983 Percent of GNP	1984 Amount	1984 Percent of GNP	1985 Amount	1985 Percent of GNP	Percent Change 1984/85
1	Norway	$467	0.82%	$559	0.99%	$584	1.09%	$543	1.03%	$555	1.00%	2.3%
2	Netherlands	1,510	1.08	1,472	1.08	1,195	0.91	1,268	1.02	1,135	0.91	-10.5
3	Sweden	916	0.83	987	1.02	754	0.84	741	0.80	841	0.86	13.4
4	Denmark	405	0.73	415	0.76	395	0.73	449	0.85	440	0.80	-2.1
5	France*	4,022	0.71	4,034	0.75	3,815	0.74	3,788	0.77	4,022	0.79	6.2
6	Belgium	574	0.59	499	0.59	487	0.60	442	0.57	430	0.53	-2.7
7	Australia	649	0.41	882	0.57	753	0.49	777	0.45	749	0.49	-3.6
7	Canada	1,187	0.43	1,197	0.41	1,429	0.45	1,625	0.50	1,638	0.49	0.8
9	West Germany	3,182	0.46	3,152	0.48	3,176	0.48	2,782	0.45	2,935	0.47	5.5
10	Finland	135	0.28	145	0.30	153	0.32	178	0.36	211	0.39	18.5
11	Austria	317	0.48	235	0.35	158	0.23	181	0.28	248	0.38	37.0
12	United Kingdom	2,194	0.43	1,800	0.37	1,610	0.35	1,430	0.33	1,531	0.34	7.1
13	Switzerland	236	0.24	252	0.25	320	0.31	286	0.30	301	0.31	5.3
13	Italy	670	0.19	811	0.24	833	0.24	1,133	0.33	1,099	0.31	-3.0
15	Japan	3,171	0.28	3,023	0.28	3,761	0.32	4,319	0.34	3,797	0.29	-12.1
16	New Zealand	67	0.29	65	0.28	61	0.28	55	0.25	54	0.25	-1.0
17	United States	5,760	0.20	8,202	0.27	8,055	0.24	8,711	0.24	9,555	0.24	9.7
17	Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	35	0.22	39	0.24	13.4
DAC Total		25,461	0.35	27,730	0.38	27,540	0.36	28,743	0.36	29,580	0.35	2.9

*Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

Table 3: ODA of Major Donor Countries, 1981-85

(in millions of dollars)

1985 Rank	Country	1981	1982	1983	1984	1985	Share of Total DAC ODA 1985
1	United States	$5,760	$8,202	$8,055	$8,711	$9,555	32.3%
2	France*	4,022	4,034	3,815	3,788	4,022	13.6
3	Japan	3,171	3,023	3,761	4,319	3,797	12.8
4	West Germany	3,182	3,152	3,176	2,782	2,935	9.9
5	Canada	1,187	1,197	1,429	1,625	1,638	5.5
6	United Kingdom	2,194	1,800	1,610	1,430	1,531	5.2
DAC Total		25,461	27,730	27,540	28,743	29,580	100.0

*Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

to "countries bordering conflict areas." Three countries -- Turkey, Pakistan and Thailand -- were deemed to fit this category in 1980, and each received increased aid.

The term "countries bordering conflict areas" may have been too confrontational for a country pledged to world peace, however. In 1981 Prime Minister Suzuki adopted a new phrase to describe strategic aid: "those areas which are important for the maintenance of peace and stability in the world." This designation is still listed in summaries of Japan's aid philosophy. Subsequently, Japan has increased its assistance to strategically important countries, including Egypt, Pakistan, Jamaica, South Korea, Oman, Sudan, Zimbabwe, North Yemen, Kenya, the People's Republic of China and ASEAN (the Association of Southeast Asian Nations). Moreover, it has withheld aid as a diplomatic sanction -- for example, to Vietnam.

Some of these initiatives have been at the request of the United States; others have required little persuasion. However, Japanese officials do not agree as to what place strategic considerations have in aid flows. There are Liberal Democraty Party members who deny that aid is given for strategic reasons at all. For example, while the front-line position of Thailand is regarded by some party officials as justification for assistance, others argue that humanitarian reasons exist for aiding the refugee-filled country. Still others observe that the interdependence between Japan and Thailand prompts the aid.

The level of disagreement among LDP officials highlights the sensitive nature of strategic aid. The Diet has restrictions against using aid directly for military and security assistance; consequently, Tokyo has rejected specific security-related aid requests. Thus, Japan refuses to give technical or economic cooperation if it is either applicable to military purposes or (in relation to countries at war) if it is capable of escalating the conflict. Within the bureaucracy, the Foreign Ministry is the most supportive of using aid for strategic reasons; other ministries make few attempts to actively support comprehensive national security. However, an unofficial consensus does exist in the government that annual increases in the ODA budget should be greater than those in the defense budget.

According to aid expert Dennis Yasutomo,[2] given Japan's hesitancy to cite strategic reasons for assistance, the government in recent years has been more likely to empasize interdependence and humanitarianism as motivations for aid. Interdependence differs from comprehensive security in that it is broader, taking into account nonstrategic geographic, historical, political and economic factors.

Regional Distribution of Aid

As Table 4 indicates, Japan's development assistance emphasizes Asia, specifically the ASEAN countries, the People's Republic of China and South Korea. Stability in Asia is considered vital to Japan's long-term security. In fact, by the end of the 1970s, a 7-1-1-1 formula was institutionalized in

[2]Dennis Yasutomo, The Manner of Giving (Lexington, Massachusetts: Lexington Books, 1986), Chapter 4.

Table 4: Japan's ODA by Region, 1981-85

(in millions of dollars)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocable
1981	$2,260 (100.0%)	$1,605 (71.0%)	$190 (8.4%)	$211 (9.3%)	$177 (7.8%)	$-2 (-0.1%)	$19 (0.9%)	$62 (2.7%)
1982	$2,367 (100.0%)	$1,624 (68.6%)	$194 (8.2%)	$268 (11.3%)	$184 (7.8%)	$-3 (-0.1%)	$23 (1.0%)	$77 (3.2%)
1983	$2,425 (100.0%)	$1,614 (66.5%)	$150 (6.2%)	$287 (11.8%)	$241 (9.9%)	$23 (1.0%)	$18 (0.7%)	$93 (3.8%)
1984	$2,427 (100.0%)	$1,594 (65.7%)	$249 (10.3%)	$211 (8.7%)	$229 (9.4%)	$38 (0.1%)	$25 (1.0%)	$117 (4.8%)
1985	$2,557 (100.0%)	$1,732 (67.7%)	$201 (7.9%)	$252 (9.9%)	$225 (8.8%)	$1 (0.0%)	$24 (0.9%)	$122 (4.8%)

Note: Net disbursement basis.

Source: Ministry of Foreign Affairs

Table 5: Major Recipients of Japan's ODA, 1981-85

(in millions of dollars)

1981		1982		1983		1984		1985	
Country	Amount	Country	Amount	Country	Amount	Country	Amount	Country	Amount
Indonesia	$300	China	$369	China	$350	China	$389	China	$388
South Korea	296	Indonesia	295	Thailand	248	Malaysia	245	Thailand	264
Thailand	214	Bangladesh	216	Indonesia	236	Thailand	232	Philippines	240
Philippines	210	Thailand	170	Philippines	147	Indonesia	168	Indonesia	161
Bangladesh	145	Philippines	137	India	130	Philippines	160	Burma	154
Burma	125	Burma	104	Burma	114	Bangladesh	123	Malaysia	126
Pakistan	118	Pakistan	95	Bangladesh	104	Burma	95	Bangladesh	121
Egypt	71	Malaysia	75	Malaysia	92	Egypt	81	Pakistan	93
Malaysia	65	Sri Lanka	62	Sri Lanka	73	Pakistan	67	Sri Lanka	84
Turkey	51	Egypt	62	Pakistan	73	Sri Lanka	64	Egypt	73

Note: Net disbursement basis.

Soruce: Ministry of Foreign Affairs

Japan: roughly 70 percent of development aid was slated for Asia, while Africa, the Middle East and Latin America received approximately 10 percent each. It is no surprise, then, that China has been the single largest recipient of economic assistance since 1982, while the next three slots are filled by ASEAN countries (Thailand, the Philippines and Indonesia) (see Table 5). And while geopolitically important countries such as Pakistan and Egypt are included in the top-ten list, they are ranked eighth and tenth, respectively.

Since the negotiations on Peking's first loans in 1979, Japanese aid to China has skyrocketed. In 1985 alone it received $387.9 million. While this is partly due to political and strategic factors, the enormous potential of China's market is also an attraction. It is probably safe to assume that a combination of these factors has made Peking ASEAN's top competitor for aid.

Although Japan is committed to increased outlays in other regions of the world, officials admit there are problems. High per-capita income in some Middle East and Latin American countries poses obstacles to ODA eligibility status. As for Africa, Japan is hampered by lack of experience and vast cultural differences. Nonetheless, Tokyo is focusing on relieving poverty in Africa and is especially interested in agricultural development. In June 1985 Foreign Minister Abe proposed a "Green Revolution for Africa" to aid in reforestation, formulation of national development plans, infrastructure improvement, rural development reforms and improved conditions for small farmers (see JEI Report No. 34A, September 19, 1986). The severity of the crisis makes Africa the most likely number-two recipient of Japan's future aid flows.

Expansion of Aid Participation

According to Brooks and Orr,[3] Japan attempts to maintain approximately a 3:7 ratio of multilateral to bilateral ODA. While bilateral aid is preferred, by participating in multilateral efforts Tokyo can reach countries where bilateral projects are not feasible. The United Nations receives approximately one-third of Japan's total multilateral donations. Japan is the largest contributor to the Asian Development Bank as well as the second-largest in the African Development Bank and African Development Fund. It is also a major donor to the World Bank and its agencies, the Inter-American Development Bank and several international organizations in Asia, including the Asian Productivity Organization and the Southeast Asia Fisheries Development Center. (See JEI Report No. 37B, October 10, 1986, for a discussion of Japan's offer to boost its contributions to the International Monetary Fund and the International Development Agency, the World Bank's soft-loan arm.)

Official assistance is hardly the only form of aid, however. According to a 1985 report, over 200 non-governmental aid organizations (NGOs) exist in Japan. The government supports private aid efforts and hopes to collaborate more closely with the NGOs; in fact, these organizations received $40.7 million in government funding in 1984. Some examples follow:

- Japan Overseas Development Corp. - Provides on-the-job training in response to local requests; participates in overseas investment financing as well as import financing for joint venture products.

[3]Brooks and Orr, op. cit., p. 334.

• International Development Center of Japan - Undertakes overseas studies of development-related issues and organizes courses for development planners and economists.

• OISCA Industrial Development Body - Sends more than 1,000 volunteer workers to developing countries and accepts trainees for technical instruction.

• Japan International Volunteer Center - Sends more than 1,000 volunteers abroad, especially to Southeast Asia.

• Asian Community Trust - Offers approximately Y11 million ($71,000 at Y155=$1.00) annually in financial assistance for development projects.

• Toyota Foundation - Provides financial assistance for development projects.

The current seven-year plan also includes more coordination between private and government activities. Special emphasis has been placed on the need to promote investment in the third world. While annual private investment in Asia, Latin America, the Middle East and Africa is greater than in 1973, flows to Africa and the Middle East have declined dramatically in recent years (see Table 6). Officials, recognizing the risks of investing in developing countries, have begun to implement special measures to stimulate investment. Not surprisingly, the major area of emphasis will be Asia (see JEI Report No. 32B, August 29, 1986).

Table 6: Japanese Foreign Direct Investment in Developing Regions, FY 1981-FY 1985

(in millions of dollars)

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	As of March 31 1986
Asia	$3,338	$1,384	$1,847	$1,628	$1,435	$19,463
Latin America	1,181	1,503	1,878	2,290	2,616	15,636
Africa	573	489	364	326	172	3,369
Middle East	96	124	175	273	45	2,972

Source: Ministry of Finance

Saburo Okita, the former foreign minister, has also issued a proposal that resulted from a private study sponsored by the United Nations University of Tokyo and the World Institute for Development Economics Research. The plan, announced April 19, 1986, would be a Japanese "Marshall Plan" to recycle much of Japan's current account surplus -- nearly $50 billion in 1985 -- as loans to and investments in the developing world. The plan would involve tied-aid as an incentive to Japanese firms to support the program, as well as continued emphasis on export-led growth in Japan.

In a general sense, aid policies also include the Japanese public. The emphasis given to ODA expansion has widespread popular support, since aid is considered Japan's contribution -- as a peaceful country -- to the developing nations. In short, there seems to be a consensus among the bureaucracy, political parties, organized labor, the media, business and the public that Japan's ODA policies are worth the cost.

Problems

Despite Japan's efforts to increase aid flows, implementation difficulties will be hard to correct. While responsibility for formulating aid policy is primarily the domain of the Foreign Ministry, the issuance of direct loans requires the consensus of four ministries whose viewpoints often differ: Foreign Affairs, Finance, International Trade and Industry, and the Economic Planning Agency. This alone slows the bureaucratic process. Moreover, each year some funds remain undistributed because of inadequate infrastructure, shortages of qualified personnel and Japan's lack of expertise in some countries.

Japan has also been criticized because the interest rates on its loans and its repayment schedules have traditionally been tougher than those of other donors. Japanese officials say that "economic cooperation" is more effective when obligations and incentives are an integral part of an aid program. The problem has been exacerbated, however, by the recent appreciation of the yen. Thailand and Malaysia have already asked Japan to reschedule their yen-denominated loans in order to make it easier for them to service their debts. Japan is unwilling to do so, emphasizing that it does not raise interest rates when the yen is weak. Officials are also worried that concessions to ASEAN countries could lead to global demands for yen loan rescheduling.

Finally, Japan has come under fire by some domestic critics for its policy of granting aid on a request-only basis. At present development proposals cannot originate in government departments or agencies involved in aid policy. While the idea is based on the premise that the objectives of the recipients should be respected, it also allows Japanese companies to lobby recipient governments for project requests. This policy seems likely to change, however. The 1985 White Paper on Economic Cooperation recommended that Japan "make a careful study of the economic conditions and other factors in the recipient country." The first step toward change was taken recently when a survey mission was sent to Thailand to determine appropriate projects for ODA funds.

Prospects for Future Aid

The primary constraint facing Japan's aid-doubling goal is Tokyo's continued emphasis on fiscal austerity. Despite tight budgets, however, Japan stands a good chance of achieving its Third Medium-Term Target -- given favorable international circumstances. Specifically, the recent appreciation of the yen has made aid-doubling more likely. Because the yen remained relatively weak until September 1985, the effects of the appreciation will not be seen until the 1986 figures are compiled.

Attitudes concerning the role exchange rates should play in ODA targets vary significantly. Some Foreign Ministry officials have reportedly suggested that Tokyo should take advantage of the yen's rise by setting a shorter time

limit for the $40 billion goal. Other officials argue that the government should avoid relying on exchange rate fluctuations and focus instead on real improvements in ODA contributions. In any event, current attempts to expand aid efforts as well as to effectively coordinate various types of assistance will continue; it is merely a question of how much expansion will occur.

Several proposals have been made with regard to the ways Japan can finance sustained increases in ODA. The Okita proposal to recycle Japan's current account surpluses to developing countries has already been mentioned. Some Foreign Ministry officials have suggested that Tokyo use windfall profits from the decrease in oil prices for ODA disbursements. Another advisory panel believes Tokyo could initiate an international cooperation tax, float a tax-free national bond or set up a lottery to gain additional aid funds. While none of these proposals has been officially adopted, the fact that attention is focused on ODA financing highlights Japan's commitment to its assistance programs.

Aid experts stress, however, that for Japan to meet its 1992 goal -- much less expand efforts beyond $40 billion, structural reforms are necessary. Without qualified personnel and better implementation facilities in recipient countries, Tokyo will be unable to distribute the funds already earmarked for development. Moreover, it will probably be necessary for Japan to expand ODA disbursements significantly in non-Asian regions, for even though countries such as India and the Philippines have vast needs, as one observer said, "There is only so much aid that Asia can absorb." As noted earlier, Japanese officials have publicly recognized the importance of both factors.

Conclusion

Japanese officials cite four additional problems that may impede their aid goals: the rising tide of protectionism in the industrialized countries; massive foreign debt in the developing countries; low export prices for primary commodities; and persistent food shortages and agricultural development problems in Africa. The broad scope of these concerns underscores the comprehensive nature of assistance policies. Japan's aid program is a response to domestic and international pressures to "do more" as a world power; it is also motivated by national economic and security concerns. As such, foreign aid will continue to be affected by Japan's political and economic relations with other industrialized countries, Tokyo's view of its own international role, and the success of government/private-sector cooperation in forming new ties with the developing countries.

For further information, contact Eileen Marie Doherty.

* * * * * *

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.